

VZCZCXRO3783
PP RUEHCHI RUEHDT
DE RUEHHM #1392/01 3471122
ZNR UUUUU ZZH
P 131122Z DEC 06
FM AMCONSUL HO CHI MINH CITY
TO RUEHC/SECSTATE WASHDC PRIORITY 1870
INFO RUEHHI/AMEMBASSY HANOI PRIORITY 1312
RUCPDOC/DEPT OF COMMERCE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHRC/DEPT OF AGRICULTURE WASHINGTON DC
RUEHC/DEPT OF LABOR WASHINGTON DC
RUEHZS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS
RUEHGV/USMISSION GENEVA 0020
RUEHHM/AMCONSUL HO CHI MINH CITY 1967

UNCLAS SECTION 01 OF 02 HO CHI MINH CITY 001392

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STATE FOR EAP/MLS AND EB/TPP/BTA/ANA
STATE PASS USTR DAVID BISBEE
USDOC FOR OTEXA
USDOC FOR 4431/MAC/AP/OPB/VLC/HPPHO
TREASURY FOR OASIA
GENEVA FOR USTR

E.O. 12958: N/A
TAGS: ETRD ECON KTEX WTRO VM
SUBJECT: U.S. GARMENT INDUSTRY LEAVING VIETNAM

REF: HO CHI MINH 1150

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¶1. (U) Sensitive But Unclassified. Not for Internet distribution.

¶2. (SBU) Summary: U.S. garment retailers, the largest indirect employers in Vietnam's apparel industry, are cutting Vietnam orders as a result of the USG special textile monitoring mechanisms. Well over one hundred thousand workers could be affected over the next year.

¶3. (SBU) Apparel industry representatives including U.S. buyers continue to criticize the September 28 USTR/USDOC commitment to Senators Dole and Graham to monitor apparel imports from Vietnam and consider self-initiating anti-dumping investigations of Vietnamese garment exports. Producers and buyers claim that the commitment's reference to ?critical circumstances? would allow preliminary dumping duties to be applied retroactively. Major U.S. purchasers including Nike, Victoria's Secret, GAP, and the Limited report that they are moving orders out of Vietnam to avoid this contingent liability. End Summary.

RESPONSES TO USTR/DOC COMMITMENT TO DOLE AND GRAHAM

¶3. (SBU) The Apparel Committee of the American Chamber of Commerce, the Vietnam Textile and Apparel Association (VITAS), and the Association of Garment, Textile, Embroidery and Knitting of HCMC (AGTEK) are holding a variety of workshops and meetings in December to improve understanding of the USTR/USDOC commitment and of U.S. anti-dumping procedures. Continuing with the criticism they made two months ago (reftel), industry representatives, both American and Vietnamese, charge the commitment is a violation of the U.S.-Vietnam WTO bilateral market access agreement signed in May which contained an agreed mechanism to enforce the elimination of prohibited subsidies.

¶4. (SBU) The possibility of self-initiated investigations and retroactive duties is causing key U.S. importers to cut their Vietnam orders for 2007. The head of the Vietnam branch of MAST Industries, a subsidiary of the Limited that produces apparel for stores like The Limited, Victoria's Secret and Lane Bryant, told EconOff that MAST is phasing

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out its production in Vietnam. MAST plans to reduce orders in Vietnam by USD 100 million in the first quarter of 2007 and then continue to reduce orders so that by the end of the year all MAST purchases in Vietnam ? with a value of as much as USD 350 million ? will be shifted to other countries in Asia, including China, Indonesia, Sri Lanka, Cambodia and the Philippines. According to MAST, as many as 150,000 garment workers, mostly in Korean and Taiwanese owned plants, could be affected. Nike Vietnam, which indirectly employs 62,000 garment workers through Nike contractors, told EconOff that Nike apparel procurement in Vietnam will be cut by at least 17 percent. Gap Inc. reports it will reduce placements in Vietnam by an unspecified amount. U.S. retailers indirectly employ a significant segment of Vietnam's approximately 2 million apparel workers; some of these jobs could be in jeopardy if U.S. garment retailers pull their business out of the country.

SENSITIVE CATEGORIES AND CRITICAL CIRCUMSTANCES

¶5. (SBU) In addition to viewing the USG letter as a violation of the US-Vietnam WTO agreement, industry representatives are worried about the list of ?sensitive? categories outlined in the letter and about the willingness of the USG to make allowances for critical circumstances, which would allow for the retroactive application of dumping duties. They say the list (i.e., trousers, shirts, underwear, swimwear and sweaters) is vague and broad, and could potentially affect 500 different products in these categories. The head of VITAS and Vinatex, Vietnam's largest state-owned apparel producer, said this would mean

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monitoring 50 to 60 percent of Vietnamese apparel exports to the United States. They charge that possible application of critical circumstances adds a layer of uncertainty to the costs of doing business in Vietnam compared with its competitors.

VIETNAMESE PRODUCERS PREPARING FOR POTENTIAL INVESTIGATIONS

¶6. (SBU) Vietnamese producers, meanwhile, are discussing ways to self-police their manufacturing so as to keep apparel exports to the United States from expanding too rapidly after quotas are lifted. The head of the Association of Garment, Textile, Embroidery and Knitting of HCMC (AGTEK) told EconOff that representatives of Vietnam's largest producers have met with representatives of the Ministry of Trade (MOT) to discuss ways to head off an anti-dumping investigation by limiting exports to the United States. Vietnamese producers are also looking to take advantage of WTO membership to diversify into markets ? in South America, for example ? that were previously closed as a result of high tariffs. In addition, industry leaders are starting to educate themselves about U.S. anti-dumping procedures so as to be able to mount an effective response to a potential anti-dumping case.

COMMENT

¶7. (SBU) The complaints by U.S. retailers and Vietnamese apparel producers have not changed since the September USTR/USDOC commitment to Senators Dole and Graham. However, U.S. companies now have begun to act. Importers

and retailers have made business decisions that they will not shoulder the contingent liability of retroactive duties and are moving orders to other Asian countries where the cost of risk is lower.

¶8. (SBU) We have provided industry representatives a copy of the December 4 Federal Register notice so that they can take their concerns about the monitoring system directly to the Department of Commerce.

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